KING COUNTY, WASHINGTON January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. <u>Cash And Investment Accounts Should Be Reconciled</u>

Our audit revealed that the Department of Metropolitan Services (DMS) did not reconcile general ledger balances for cash, investments, and the warrant clearing fund accounts in a timely manner. DMS is the former Municipality of Metropolitan Seattle (Metro) which fully merged with King County effective January 1, 1996. DMS and King County maintain discrete financial accounting systems.

DMS did not reconcile bank deposits to the accounting records. Without this reconciliation, DMS lacked the ability to detect errors or irregularities.

The DMS general ledger cash accounts were not reconciled timely to the King County Treasury records. Initially, the 1995 year-end DMS cash account balances were \$11,129,110 less than the King County records. A major reconciliation effort completed on May 24, 1996, identified the majority of the discrepancies, however, \$313,331 remained unreconciled.

The DMS general ledger investment account balances were not reconciled timely to the King County investment management records. Initially, the 1995 year-end DMS investment account balances were \$7,094,579 less than the King County records. After a major reconciliation effort, completed on May 24, 1996, DMS general ledger investment accounts were balanced.

The DMS general ledger accounts payable for the warrant clearing fund were not reconciled timely to the accounts payable detail. In addition to the untimely reconciliation, a new accounting system at DMS had a "bug" that added to the reconciliation difficulties. As a result, the 1995 year-end general ledger balances for the warrant clearing fund were forced to balance to the accounts payable detail by plugging and recording \$991,247 in miscellaneous expense.

The above reconciliation delays were caused by the King County-Metro merger, wherein departmental responsibilities and staffing assignments changed, and by the September 1995 installation of the new accounting system at DMS. The lack of timely reconciliations could lead to errors and irregularities that are not detected in a timely manner.

The major effort to reconcile the 1995 year-end DMS general ledger balances delayed preparation of the county's 1995 financial statements and caused additional audit costs. The remaining unexplained variances were not material to the county's financial statements.

As of June 6, 1996, monthly reconciliations for 1996 DMS cash and investments had not

been performed.

 $\underline{\text{We recommend}} \ DMS \ cash, \ investment, \ and \ warrant \ clearing \ fund \ general \ ledger \ balances \\ be \ reconciled \ monthly \ to \ King \ County \ and \ subsidiary \ detail \ records.$

2. The Ethics Board Should Enforce The King County Code Of Ethics

The county's system of monitoring and ensuring employees and consultants comply with conflict of interest disclosure filing requirements was inadequate. County officials have established a code of ethics which governs and provides guidance to all county officials and employees in performance of official duties. The code requires certain employees and private consultants to disclose and file a statement of conflict of interest with the county ethics board.

Our tests disclosed the following instances of noncompliance with the code requirements:

- Of 40 county employees tested, who were involved in negotiating or awarding contracts and were required to file conflict of interest statements, 35 had not filed the 1995 disclosure statements.
- Of 40 filed employee disclosure statements tested, five disclosed consulting income or outside employment worthy of review. The board made no such review. Twenty-one statements were not signed by the employee.
- Of 86 county consultants tested, who were required to file with the ethics board before their contracts were finalized, 72 did not have statements on file with the board. The contracts and services had been finalized and rendered.

Regarding county employees, the *King County Employee Code of Ethics*, Chapter 3.04.050 states in part:

All elected county officials; employees appointed by the county executive; all employees appointed by the deputy county executive, or department directors, and who are subject to the approval of the county executive; all employees of the council; and such public employees as may be determined by the board of ethics, shall file with the board of ethics within ten days of employment or appointment and on or before April 15 of each year thereafter a written statement (Emphasis added.)

The Ethics Board has defined public employees required to file as:

Elected officials, department directors, division managers, court administrators, administrative assistants, confidential secretaries, exempt staff, County Council staff, all board and commission members, and those-involved-in-negotiating-or-awarding-contracts. . . . (Emphasis added)

Regarding consultants, the Code of Ethics, Chapter 3.04.120, states in part:

It shall be the duty of any private consultant firm and/or individual entering into contracts with King County to perform studies in excess of two thousand five hundred dollars to file with the King County board of ethics and the King County executive a sworn written disclosure statement disclosing . . . any potential interest or conflict of interest . . . No contract with any private consultant firm and/or individual shall be considered final until five days after receipt by the board of ethics of the information required to be disclosed

The ethics board cannot ensure proper implementation and adherence to the county's code of ethics when employees and consultants are allowed to ignore the requirements. Further, to be effective, the board must follow up on potential conflicts of interest.

<u>We recommend</u> the King County Ethics Board implement adequate procedures to ensure employees and consultants comply with the code of ethics disclosure filing requirements.

3. <u>Internal Controls Over Cash Receipting At The Remote Locations Should Be Improved</u>

Controls over cash receipting performed by selected county departments at remote locations throughout the county were generally weak. Those weaknesses by department are listed as follows:

a. At the Department of Adult Detention a significant number of daily cash reports for each of the three shifts of cashiers lacked evidence of review or approval by the supervising sergeants. The sergeants should verify and approve cash activities reported by each cashier at the end of each shift.

While the accounting staff reviewed the cash reports and the related cash activity, the lack of review and approval by cashier supervisors could prevent assigning responsibility should a loss occur. This condition also increases the risk that errors or irregularities could occur and not be detected in a timely manner.

- b. Within the Licensing and Regulatory Services Division, multiple cashiers in the Animal, Business, and Marriage (ABM) section and in the animal shelters receipted payments into the same cash registers. Further, receipts at ABM were not counted when the registers closed at the end of the day. The receipts were placed, uncounted, in the vault overnight, to be counted and balanced by the accounting/deposit clerk. Finally, mode of payment (cash or check) was not consistently or accurately noted.
- c. At the Heritage Festival operated by the Parks Division we found:
 - (1) Original source documents for revenues generated by the children's corner, the information booth, and the festival office, were not maintained. Without the original source documents, we could not determine the accuracy of revenue generated and reported on those activities.
 - (2) Revenues at the festival were receipted using generic "Rediform" receipts. Rediform receipts do not ensure or provide sequential completeness of transactions because duplicate numbers are easily obtained. Official prenumbered receipts should always be used for all receipting functions.
 - (3) Additionally, the festival's financial records were not reconciled in a timely manner. Although our audit disclosed no irregularities, the lack of source documents and official receipts, coupled with untimely reconciliations could result in errors or misappropriation of public funds.
- d. At the Department of Development and Environmental Services (DDES) we found:
 - (1) The main cashier entered miscellaneous sales into both the cash register system and the Sierra permit system. Access capability into both databases limits the effectiveness of the independent reconciliation performed between the Sierra and cash register systems.
 - (2) The DDES cashier maintains the deposit suspense account both in the Sierra permit system and the check log program. The cashier has edit capabilities of the check log program. Currently there is no reconciliation or review performed to determine that checks recorded in the check log program are eventually deposited with the bank. These circumstances could allow errors and

irregularities to occur and not be detected in a timely manner

- (3) Our audit disclosed many instances of negative entries in the cash reconciliation payment report. There were inadequate comments or documentation to explain the reasons for the negative entries. Further, voided cash register transactions were not reviewed and approved by a supervisor at the time they occurred. Voided transactions and negative payments could be used to conceal irregularities in cash receipts activity.
- (4) Our cash count at the record center disclosed that daily receipts were not deposited with the DDES main cashier on a timely basis. At the time of our cash count, some receipts had been on hand for nearly 20 days.
- (5) Generic "Rediform" receipts were used for manual receipts written by the DDES main cashier when power outages or other interruptions occurred. Other remote locations, including the Record Center, Land Use Services, and Environmental Education used generic rediform receipts for all receipting. We also noted a few checks were received at the community centers, but no receipts were issued to the customers. This situation established no control over payments received.
- (6) The Record Center and the Land Use Services could not locate their 1995 receipt books. When original documents are not retained, it is impossible to determine whether errors or irregularities have occurred.
- e. Our audit of 6 out of the 16 remote cash handling sites and the central cash receipting function of the Seattle-King County Department of Public Health (public health) revealed the following weaknesses:
 - (1) Five out of the six locations could not specifically identify who was responsible for the processing of individual cash transactions. There were normally multiple cashiers at each site and all were able to process cash receipts at any time during office hours.
 - (2) Four out of the six locations audited allowed an individual responsible for cashiering to also prepare the deposit without adequate supervisory review. In addition, two locations allowed the cashiers to also post cash transactions to customer accounts.
 - (3) Two locations did not record the mode of payment when processing transactions through the cash register.
 - (4) Two public health centers did not retain source documents with cash register tapes and deposit information. In addition, at a pharmacy, validations of source documents were performed only on cash transactions; check transactions were not being validated. And, a dental clinic was not validating any of their source documents with payment information nor was this clinic using the proper control log for receipting in food handler and meat wrapper permits.
 - (5) Two locations did not provide adequate restricted access to locked cabinets and/or safes where money was stored before the courier came to collect the daily deposits.
 - (6) At all remote locations examined, we were unable to identify any controls

which would prevent unrecorded receipts from going undetected.

(7) At the central cash receipt location within fiscal services, one person was responsible for receiving all moneys collected from remote locations, prepared the deposit with the King County Treasury Division, and made adjustments to the deposit without any subsequent notification to the remote locations as to the amounts that were deposited on their behalf.

The conditions at Public Health were caused by lack of adherence to the prescribed policies and procedures. Fiscal services has attempted, in the past, to monitor these locations. However, the last monitoring of cash handling was performed over two years ago. It should be noted that, in the summer of 1996, \$162 was stolen from a deposit prepared at the Southeast Public Health Center. Because of the lack of segregation of duties and supervisory review at both the health center, as well as the central cash receipting at fiscal services, public health officials were unable to assign accountability to the theft.

<u>We recommend</u> county departments implement appropriate internal control procedures to ensure that all moneys collected are recorded and deposited, including:

- Proper segregation of duties.
- Separate cash workstations, registers, or drawers assigned to each cashier.
- Cash collections accounted for at shift changes and deposits prepared at the end
 of the day, all with independent or supervisory reviews.
- Independent approvals of negative payment entries or voids.
- Daily deposits from remote locations with sufficient activity.
- Deposits and inventory items stored in secure locations with limited access.
- Prenumbered and official cash receipting documents.
- Mode of payment consistently and accurately noted on the receipt document, with independent reconciliation to the composition of the deposit.
- Original documents retained as per the county's retention schedule.

4. Controls Over Fixed Assets Should Be Improved

The policies and procedures for fixed assets as prescribed by both King County and the Department of Metropolitan Services (DMS) (which maintain discrete financial accounting systems) were not always being followed.

- a. We found the following for DMS assets:
 - (1) We performed an on-site physical inventory of 231 pieces of computer equipment, valued at more than \$1,000, at four locations. Eleven of the items in our sample could not be found. No documentation existed to adequately track their disposition.
 - (2) We found ten assets, each with an individual value of more than \$20,000, without asset tags and not individually tracked. Because these assets were not recorded as equipment, they were not included in the annual inventory.
 - (3) We compared three DMS organizational inventory lists and the fixed asset accounting records. The comparison included 202 pieces of computer equipment of which 55 pieces listed on the fixed asset accounting records were not listed on the inventory list. Six assets were found in surplus with no tracking documentation.
 - (4) Ten assets in our sample had been transferred to other DMS locations without notifying central accounting. Central accounting records were not updated for the transfers and no transfer documentation existed.
 - (5) Based on the annual physical inventory of assets valued more than \$5,000, nineteen items were reported as having been disposed of. However, we could not locate disposition approval forms for any of these items. In addition, four items removed from the books in 1995 did not have the required approval authorization form.
 - (6) None of the fixed asset custodians interviewed were aware of the DMS policies, including the requirement to submit a signed Request for Surplus Authorization/Notification of Asset Disposition Form.

DMS Administrative Policy No. 13 states in part:

- 1. The Procurement Management Division will assign each fixed asset to a custodial organization at the time it is recorded as a fixed asset.
- 2. The supervisor of the custodial organization is responsible for safeguarding fixed assets and attractive assets against loss or theft.
- The supervisor of the custodial organization is responsible for informing the Procurement Management Division by submitting a completed Request for Surplus Authorization/Fixed Asset Transfer form if a fixed asset is transferred to another location or disposed of in any manner.
- 4. The procurement management organization shall coordinate

fixed asset inventories.

- b. We found the following for King County assets:
 - (1) Our audit disclosed seven county departments had not completed a 1995 physical inventory verification as of the due date March 5, 1996. One of the departments had provided Property Service Division with a certification without performing the actual physical inventory.
 - (2) Property Service Division is accountable for establishment of inventory procedures which control and monitor all King County fixed assets and disposal of surplus property. The division's controls were not adequate to accurately determine which departments had or had not conducted a physical inventory count. The Property Service Annual Inventory Status Report showed fourteen departments as delinquent in terms of an annual physical inventory when each one those departments had actually submitted the required documentation.
 - (3) The county has no policy on employee home use of county-owned computers. In several of the departments we visited, including DMS, several computers which could not be located during the audit were found to be temporarily or permanently located at employees' residences.

<u>We recommend</u> King County officials enforce adherence to established policies and procedures governing the safeguarding of fixed assets. <u>We also recommend</u> King County develop a policy on employee home use of county-owned computers.

5. <u>Monitoring Of Departments Procurement Process Should Be Improved</u>

The county's Purchasing Agency (now the Procurement Division of the Department of Finance) did not monitor the other county departments to ensure adherence to established county procurement procedures. County departments could purchase goods and services below \$1,000 (now \$2,500) directly from vendors as long as they follow established county procedures.

We sampled departmental purchases and found quantities, timing of purchases, and invoices were split to avoid going through purchasing and to avoid competitive procurement requirements.

Further, departments utilizing the purchasing's blanket purchase orders were not verifying the price billed to the price per the purchase order. We found instances where the price billed exceeded the price stipulated on the purchase order.

Without proper monitoring of departmental purchasing practices, the county has little assurance that established county purchasing procedures are followed and competitive procurement requirements are met.

Purchasing has begun monitoring efforts including increased communication with county departments and developing an exception report to identify split purchases.

<u>We recommend</u> Purchasing continue its effort to improve monitoring departmental procurement process.

6. Internal Controls Over Stadium Administration Accounts Receivable Should Be Improved

The Department of Stadium Administration (stadium) controls over accounts receivable were inadequate and established county policies and procedures over delinquent accounts were not followed. The stadium is responsible for contracting with Kingdome event tenants, settling contract costs, billing tenants, and collecting payments thereafter.

Our audit disclosed the following conditions:

- a. A sole accountant at the stadium was responsible for billing and collecting event settlements; we found no compensating controls.
- b. The accountant was also responsible for aging the accounts receivable balance, estimating the provision for uncollectible accounts receivable, and preparing the appropriate general journal entries. We found no evidence of supervisory review and approval of those entries.
- Significant accounts receivable were allowed to become delinquent. For instance, a tenant did not pay settlement expenses in 1994 and 1995, totaling \$85,894 and failed to pay a required \$40,000 security deposit in 1995.
 However, despite the outstanding debt, the tenant was allowed to book another event in 1996.
- d. A \$17,485 debt has been in collection enforcement for over two years. The Prosecuting Attorney's Office has not been contacted to obtain the necessary approvals to write it off.
- e. A tenant could not pay a \$24,239 debt in 1990. The tenant entered into an informal agreement with the stadium to pay \$50 per month. After the end of 1991, the tenant stopped paying the \$50 per month. One letter was sent in May 1992 requesting payment. Since that time, no action has been taken to collect the debt.
- f. The stadium is owed various debts totaling \$53,555. The debts are one to six years old and have not been sent to collection enforcement for collection.

King County Administrative Policy and Procedure number FIN 11-3, write-off of uncollectible accounts receivable, states under Policy 6.1:

County agencies shall prepare and review an aged trial balance of their accounts receivable as often as necessary, but at least annually at yearend, in order to determine if any delinquent receivables should be written off as bad debts.

Additionally, Administrative Policy number FIN 11-2, provision for estimated uncollectible accounts receivable, states in part under procedure 7.2.3 that agencies have the responsibility to prepare a separate schedule for each of the accounts receivable being disputed by the debtor and indicate the most likely outcome of each disputed account.

Failure to establish adequate internal controls in management of accounts receivable could allow for errors or irregularities in the billing and receipting activities. In addition, tenants could use the Kingdome without adequately compensating the county.

We recommend stadium management implement adequate controls over accounts

receivable, including proper segregation of duties, supervisory review, and approval of billing and accounting entries. We further recommend the stadium follow established King County procedures in managing delinquent accounts receivable.

7. <u>Controls Over Employee Payroll Time Cards Should Be Strengthened</u>

The Detention Services Division of the Department of Youth Services did not follow prescribed payroll control procedures. The division utilizes automated time clocks for establishing time worked by employees. We examined the monthly time cards for twenty-one workers (252 timecards) and two supervisors (24 timecards) and noted the following conditions:

- a. Employees did not always use the automated time clocks. Of the 252 time cards examined, employees failed to punch in or out on 89 occasions.
- b. The automated time cards had extensive manual adjustments. Of the 252 cards examined, 152 manual changes were made, mostly for late-to-arrive or early-to-leave reasons.
- c. Of the 252 monthly time cards examined, 240 were lacking employee or supervisor signatures.
- d. County prescribed Absent Request forms were not properly filed. The forms were stored in boxes in no particular order. Of the forms we requested, ten could not be located.

The Department of Youth Services has established payroll procedures for each of its divisions. The Detention Division's failure to follow those established procedures could result in misuse of public funds should an employee be paid for time not worked or leave benefits not be deducted from available leave balances.

<u>We recommend</u> the Department of Youth Services require its Detention Division to adhere to established departmental payroll procedures, including utilizing the time clocks, signing time cards and filing Absent Request leave forms.